Media Release

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AmBank Group kicks off FY20 with 13% increase in net profit

AMMB Holdings Berhad (AmBank Group or the Group) today announced its financial results for the first quarter ended 30 June 2019 (Q1FY20).

<u>Summary of Q1FY20 Results[1]</u>

- Total income up 5.0% to RM1,064.6 million, underpinned by consistent net interest income (NII) growth of 4.2%, coupled with higher trading and insurance income
- Expenses were well contained at RM528.6 million, up 3.1%. Cost-to-income (CTI) ratio improved further to 49.7% from 50.6% a year ago, again delivering a positive JAWS
- Profit before provision (PBP) increased by 7.0% to RM536.0 million
- Net recovery of RM32.5 million (Q1FY19: net impairment charge of RM7.0 million) largely attributable to the resolution of several large corporate loans
- Consequently, net profit after tax and minority interests (PATMI) grew 12.6% to RM391.5 million
- Return on equity (ROE) improved to 8.8%[2] (Q1FY19: 8.3%), with return on assets (ROA) of 1.11%[2] (Q1FY19: 1.10%) and basic earnings per share (EPS) of 13.01 sen (Q1FY19: 11.56 sen)
- Gross loans and financing at RM100.8 billion, fell 1.0% year-to-date (YTD) mainly due to corporate repayments and decline in auto finance loans. Customer deposits of RM102.8 billion, decreased 3.9% YTD to reduce excess liquidity buffers
- Gross impaired loans (GIL) ratio at 1.66% (FY19: 1.59%), with loan loss coverage[3] (LLC) ratio of 111.5% (FY19: 114.0%)
- Financial Holding Company (FHC) Common Equity Tier 1 (CET1) capital ratio was stable at 11.9% (FY19: 11.9%) and Total Capital ratio of 15.4% (FY19: 15.4%)

Dato' Sulaiman Mohd Tahir (Dato' Sulaiman), AmBank Group Chief Executive Officer commented, "We kicked off the 2020 fiscal year with a healthy net profit of RM391.5 million for the quarter under review, signifying a 12.6% increase. We are pleased to record a higher ROE at 8.8%. Total income rose 5.0% year-on-year from improved trading performance and better insurance income despite a subdued lending environment. At the same time, we continued to exert cost discipline with our CTI further improving to 49.7%. This is a testament to our transformation strategy which has placed the Group on a stronger footing to weather the more challenging operating landscape."

Compared with the preceding quarter (Q4FY19), the Group's first quarter net profit decreased 14.8% quarter-on-quarter (QoQ), mainly due to the non-repeat of the gain from sale of retail non-performing loans. Excluding this, the underlying net profit recorded a 61.1% gain QoQ, supported by better net interest margin and higher income contributions from the General Insurance and Life Insurance businesses.

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[1] All growth percentages computed on year-on-year (YoY) Q1FY20 vs Q1FY19 basis unless otherwise stated. Quarter-on-quarter (QoQ) refers to Q1FY20 vs Q4FY19.

[2] On an annualised basis

[3] Includes regulatory reserve

NII continued to increase steadily at 4.2% YoY, on the back of the expanded loans and deposits base. NoII grew 6.4% to RM395.4 million, largely contributed by higher trading income and investment income from Group Treasury and Markets and General Insurance. As a result, total income was higher at RM1,064.6 million, up 5.0% YoY.

The Group is now in the third year of its BET300 efficiency programme and continues to record cost savings which has allowed the Group to re-invest some of these savings back into its strategic business streams as well as its digital capabilities and infrastructure. Operating expenses were well contained, up 3.1% YoY to RM528.6 million. CTI continued to improve to 49.7% from 50.6% a year ago, with a positive JAWS of 2%. Consequently, the Group's PBP grew by 7.0% YoY.

The Group recorded a net recovery of RM32.5 million in Q1FY20 compared to an impairment charge of RM7.0 million in the previous year, mainly driven by a net write-back of provision for corporate loans. The Group's gross impaired loan ratio stood at 1.66% (FY19: 1.59%), with loan loss cover at 111.5%. We are keeping a watchful eye on the credit portfolios as economic conditions are less benign.

Gross loans increased 2.5% YoY, though contracted 1.0% YTD to RM100.8 billion, mainly due to corporate loan repayments and decline in auto loans. Notwithstanding the lower loans outstanding, gross loans continue to grow in the targeted segments. Mortgage loans increased 1.7% YTD to RM34.7 billion while loans in the Retail SMEs and Business Banking segments grew 6.0% and 1.1% YTD respectively.

Total customer deposits stood at RM102.8 billion, an increase of 4.2% YoY but down 3.9% YTD. The Group's current accounts and savings accounts (CASA) stood at RM23.1 billion, with CASA mix at 22.5%. The lower deposits reflect the Group's liquidity management strategy of reducing higher costs corporate and retail term deposits while continue to drive CASA growth. All banking subsidiaries of the Group have maintained liquidity coverage (LCR) and net stable funding ratios (NSFR[4]) of above 100%.

The Group's capital position is adequate with FHC CET1 ratio at 11.9% and total capital ratio at 15.4%, as we continue to focus on capital accretive growth and improving risk-weighted assets efficiency.

Speaking on the Group's new offerings and initiatives, Dato' Sulaiman shared that, "We recently introduced Do-It-Yourself (DIY) wealth capability via AmOnline. Our online wealth investment service is aimed at encouraging young individuals to start investing and managing their wealth early. With this service, customers can manage their unit trust portfolio online with ease. At the same time, we offer advisory services through the risk profiling of the customers, which helps with the customisation of products and services recommendations."

He added, "We have also recently unveiled the new AmBank UnionPay Platinum credit card, a first from a local bank in the Malaysian credit card market. This credit card aims to tap into the fast-growing segment of Malaysian travelers to China. Through this strategic travel credit card collaboration, we are able to leverage on UnionPay's strong global presence as well as access UnionPay's exclusive deals and the U Collection, a global privilege programme for its premium cardholders."

Commenting on the recent partnership with Maxis, Dato' Sulaiman said that the AmBank-Maxis partnership will offer financial and digital solutions targeting SMEs that are clients of AmBank or Maxis. The offering will provide SMEs a faster and more seamless experience with Maxis' "Always On" connectivity via a single touch point as well as SME centric financial products from AmBank. As the Group continues to develop the ecosystem needed to support SMEs, the partnership with Maxis is timely in a digitally-driven business landscape.

[4] Under observation period

Divisional performance (Q1FY20 vs. Q1FY19)[1]

Wholesale Banking – PAT grew 42.6% YoY

Income rose 14.8% to RM302.1 million, from higher NII and stronger financial markets trading gain, partially offset by non-repeat of gain from disposal of foreclosed properties. Profit after tax (PAT) of RM257.6 million was 42.6% higher, largely attributed to higher write-back of provisions. Gross loans decreased 4.0% YTD to RM32.2 billion due to corporate loan repayments while customer deposits reduced 3.8% YTD to RM46.0 billion.

Retail Banking – PAT fell 5.6% YoY

Total income of RM358.4 million was marginally lower by 1.4% YoY. NII was up 2.0% in line with loans growth. NoII down 15.3% principally from lower cards related and wealth management fee income. Expenses decreased by 7.2%, driving PBP up 7.8% to RM152.5 million. Net impairment charge of RM58.9 million (Q1FY19:RM42.3 million). PAT fell 5.6% to RM71.3 million. Gross loans grew marginally YTD to RM57.1 billion mainly from mortgages and retail SME. Customer deposits decreased by 4.5% YTD, largely from fixed deposits.

Business Banking – PAT fell 11.9% YoY

Income increased 15.9% to RM86.5 million. NII was 18.3% higher, supported by good loans and deposits growth. NoII rose by 8.7% from higher banca assurance fee income. Net impairment charge was RM13.8 million, compared to RM1.8 million a year ago. PAT at RM30.0 million, down by 11.9%. Gross loans unchanged at RM10.1 billion while customer deposits grew 5.3% YTD to RM6.0 billion.

Investment Banking and Fund Management – PAT fell 16.5% YoY

The performance of the investment banking and fund management businesses remains soft from subdued corporate and client investment activities. Overall income was up 1.2% to RM69.9 million; PAT at RM19.5 million, down by 16.5%.

Islamic Banking – PATZ grew 16.0% YoY

Islamic Banking income grew by 4.5% to RM215.9 million, with a 12.8% reduction in operating expenses from the cost efficiency exercise. Net impairment charge of RM31.2 million, increased by RM4.7 million YoY from higher provisions on corporate loans. Profit after zakat and taxation increased by 16.0% to RM85.0 million.

General Insurance – PAT grew 12.6% YoY

Income up 11.1% to RM187.0 million largely driven by higher investment income and net earned premium, partially offset by higher claims experience. Operating expenses increased marginally to RM84.8 million. Profit after tax increased by 12.6% to RM81.7 million.

Life Insurance and Family Takaful – PAT of RM10.7 million

The Life Insurance and Family Takaful businesses recorded a PAT of RM10.7 million compared to RM13.6 million in the previous year due to the decrease in net earned premium, higher claims experience, coupled with actuarial valuation deterioration. The Group has equity accounted the results of the life insurance and family takaful business to reflect the Group's effective equity interests in the joint ventures.

Prospect for financial year ending 31 March 2020

Dato' Sulaiman commented that the outlook for Malaysia remains stable, with the economy expanding 4.9% year-on-year during the second quarter of 2019, supported by sustained domestic demand. The GDP is projected to grow circa 4.5% in 2019 underpinned by domestic demand with private consumption taking the lead. Meanwhile, inflation is anticipated to be around 1%. While the policy rate is expected to remain unchanged at 3.00% for the rest of the year, there is still room for BNM to reduce the overnight policy rate (OPR) by 25bps in 2H2019 in a move to support domestic demand and in tandem with global monetary policy where rates are expected to drop further. In tandem with a moderate economic outlook, the banking system loans growth is envisaged to grow around 4.6%.

"The Group's FY2020 strategic priorities are in place. As part of our digital roadmap, we will be rolling out more digital initiatives that provide us with a competitive edge and at the same time benefit customers. In addition, the Group remains focused on further strengthening cost efficiencies through our BET300 programme which involves every line of business," concluded Dato' Sulaiman.

For investor and analyst enquiries, contact: Chelsea Cheng Group Finance – Investor Relations Tel: +603 2036 1425 Email: chelsea-cheng@ambankgroup.com / ir@ambankgroup.com	*For media enquiries, contact*: Syed Anuar Syed Ali Group Corporate Communications & Marketing Tel: + 603 2036 1703 Email: sasa@ambankgroup.com